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MICHIGAN HOUSE OF REPRESENTATIVES

JOHN REILLY
STATE REPRESENTATIVE

COMMITTEES:
FINANCIAL LIABILITY REFORM
VICE CHAIR
JOINT COMMITTEE ON
ADMINISTRATIVE RULES VICE CHAIR
EDUCATION REFORM
ENERGY POLICY
REGULATORY REFORM

December 5, 2017

Dear Chairman Glenn and fellow members of the Energy Policy Committee,

Thank you for this opportunity to testify on behalf of my legislation, House Bill 4708, which would provide that all K-12 schools in Michigan, whether public or private, would be able to purchase their energy from an alternative electric supplier in Michigan, not subject to the 10% limit on alternative electric suppliers within a given utility market or rules enacted by PA 341 of 2016.

There are many important policy questions our committee might contemplate regarding the broader question of whether Michigan should have an open retail energy market, a fully regulated, controlled by government, or something in between.

As it is today, our energy is almost entirely regulated, with some flexibility permitted by a retail open access market capped at 10% of a given area with an incumbent utility.

That 10% has been reached and is, in fact, exceeded by those entities on a waiting list for access to alternative electric suppliers (AESs).

Energy consumers do what any actor would do: seek the product they need at the lowest price available. The simple fact that the 10% competitive market is full and over capacity demonstrates that alternative suppliers are willing and available to provide energy at a lower price than the incumbent utilities.

The question before this committee, posed by my bill, is not whether to switch from a 10% competitive market to 100% competitive. Schools only account for a small fraction of Michigan's energy consumption. The vast majority of energy is used by residents, industry, and commerce.

Allowing schools to participate in electric choice would only raise the cap, in effect, from 10% to maybe 12% of the market.

Yet those savings would save our schools millions of dollars every year.

As a member of the House Education Reform Committee, I am all too painfully aware of the financial challenges facing our schools. But we all know that schools face enormous financial pressures. Educating children is a very expensive endeavor, and taxpayers pay a great deal for quality education.

Requiring schools pay more for energy than necessary takes money out of the classroom. That's money

that could be spent on teachers, on computers, on textbooks, or on anything a school might decide is the best use of that money.

The positive effect this bill will have on our schools is clear and undeniable.

And because taxpayers pay for all of our public schools, the vast majority of these savings are indirectly experienced by taxpayers.

Just as important as the direct benefit our schools receive, the small progress toward a competitive market, such as other states have, also improves the market for other users.

First, it allows more entities, presently on the waiting list for access to choice, access to savings by the amount vacated by the schools already on choice. It takes those schools out from under the cap, freeing up that much space for others.

Second, encouraging competition encourages lower prices.

The monopoly utilities have a percentage return on investment guaranteed by law. Not only are they not subject to any threat of loss under this arrangement, but it actually incentivizes them to have higher costs.

To whatever extent monopoly utilities lose revenue under this arrangement, their profit is guaranteed anyway.

But competing with lower-cost entities may encourage the utilities to work harder to provide energy at the lowest cost possible.

The utilities' obligation as "provider of the last resort," requiring them to provide capacity even where other entities might compete, is a failure of our own policy – that benefits the utilities!

AESs are required to provide overwhelming, compelling evidence of their own ability to provide capacity. Requiring utilities to provide that same capacity only serves to mandate additional costs.

In a normal market, shortages—and anticipated shortages—create the need for new supply, quickly met by new entrants into the market or the expansion of existing entities.

We should not treat energy capacity as some mysterious commodity that could not be provided without the wise leadership of incumbent utilities. On the contrary, as energy generation has become more diverse, as more resources are discovered, and as we find more ways to reduce and streamline our energy usage, it's become a more normal market, where many companies are able to produce energy in many ways.

This is not a complicated question about how Michigan can avoid having a market rocked by having a small number of entities—schools—allowed to purchase energy in the most affordable way possible.

The proof of this is that we already have such an exception for mines!

If we can allow mines to purchase affordable energy, we should allow our schools access to those same savings.

Thank you for your consideration of this legislation, and I welcome any questions you may have.

Respectfully submitted,

A handwritten signature in black ink that reads "John Reilly". The signature is written in a cursive style with a large, sweeping "J" and "R".

John Reilly
State Representative
Michigan's 46th District